



Financial Statements

Department of the Treasury, United States Customs Service
Balance Sheet
As of September 30, 1998
(Dollars in Thousands)

	1998
ASSETS	
Entity Assets:	
Intra-governmental Assets	
Fund balance with Treasury (Note 2)	\$1,427,740
Accounts receivable (Note 3)	32,114
Advances and prepayments	30,540
Total Intra-governmental Assets	<u>1,490,394</u>
Accounts receivable, net (Note 3)	72,222
Advances	1,724
Inventory and related property (Note 4)	50,946
Property, plant and equipment, net (Note 5)	387,216
Total Entity Assets	<u>2,002,502</u>
Non-Entity Assets:	
Intra-governmental Assets	
Fund balance with Treasury (Note 2)	1,064,580
Accounts receivable, net (Note 3)	31
Total Intra-governmental Assets	<u>1,064,611</u>
Accounts receivable, net (Note 3)	871,170
Other	8,550
Total Non-Entity Assets	<u>1,944,331</u>
TOTAL ASSETS	<u><u>\$3,946,833</u></u>
LIABILITIES	
Liabilities Covered by Budgetary and Other Resources:	
Intra-governmental Liabilities	
Accounts payable	\$ 11,877
Due to the General Fund and others	1,558,179
Advances from others	23,311
Total Intra-governmental Liabilities	<u>1,593,367</u>
Accounts payable	111,769
Refunds payable (Note 6)	297,098
Advances from others	44,244
Accrued payroll and benefits	75,723
Contingencies (Note 7)	58,776
Total Liabilities Covered by Budgetary and Other Resources	<u>2,180,977</u>
Liabilities Not Covered by Budgetary and Other Resources	
Intra-governmental Liabilities	
Workers' compensation	40,906
Other (Note 7)	6,968
Total Intra-governmental Liabilities	<u>47,874</u>
Workers' compensation actuarial	172,803
Accrued annual leave	94,112
Contingencies (Note 7)	5,410
Capital lease liability (Note 8)	302
Other (Note 9)	103
Total Liabilities Not Covered by Budgetary and Other Resources	<u>320,604</u>
TOTAL LIABILITIES	<u><u>2,501,581</u></u>
NET POSITION (Note 10)	
Unexpended appropriations	428,311
Cumulative results of operations	1,016,941
TOTAL NET POSITION	<u><u>1,445,252</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$3,946,833</u></u>

The accompanying notes are an integral part of these statements.



Department of the Treasury, United States Customs Service
Statement of Net Cost
For the Year Ended September 30, 1998
(Dollars in Thousands)

	1998
COSTS:	
Program: PASSENGER PROCESSING	
Intra-governmental costs	\$ 134,793
With the Public	<u>436,415</u>
Total Costs	571,208
Less earned revenue	<u>(69,998)</u>
Net Program Costs	<u>501,210</u>
Program: TRADE COMPLIANCE	
Intra-governmental costs	205,822
With the Public	<u>664,826</u>
Total Costs	870,648
Less earned revenue	<u>(106,663)</u>
Net Program Costs	<u>763,985</u>
Program: OUTBOUND	
Intra-governmental costs	23,986
With the Public	<u>78,332</u>
Total Costs	102,318
Less earned revenue	--
Net Program Costs	<u>102,318</u>
Program: ENFORCEMENT	
Intra-governmental costs	159,387
With the Public	<u>584,889</u>
Total Costs	744,276
Less earned revenue	<u>(31,045)</u>
Net Program Costs	<u>713,231</u>
Deferred Maintenance (Note 5)	--
NET COST OF OPERATIONS (Note 11)	<u><u>\$2,080,744</u></u>



The accompanying notes are an integral part of these statements.



Department of the Treasury, United States Customs Service
Statement of Changes in Net Position
For the Year Ended September 30, 1998
(Dollars in Thousands)

	<u>1998</u>
Net Cost of Operations	\$2,080,744
Financing Sources	
Appropriations used	1,717,705
Non-exchange revenue	295,364
Imputed financing	114,734
Transferred in without reimbursement	7,195
Transferred out without reimbursement	(275)
Total Financing Sources	<u>2,134,723</u>
Net Results of Operations	53,979
Other Adjustments (Note 12)	<u>(18,000)</u>
Net Change in Cumulative Results of Operations	35,979
Increase (Decrease) in Unexpended Appropriations	<u>(46,737)</u>
Change in Net Position	(10,758)
Net Position-Beginning of Period	<u>1,456,010</u>
Net Position-End of Period	<u>\$1,445,252</u>

The accompanying notes are an integral part of these statements.



Department of the Treasury, United States Customs Service
Statement of Budgetary Resources
For the Year Ended September 30, 1998
(Dollars in Thousands)

	<u>1998</u>
Budgetary Resources (Note 13)	
Budget authority	\$2,047,231
Unobligated balance – beginning of period	957,220
Spending authority earned	229,128
Adjustments	<u>131,912</u>
Total Budgetary Resources	<u>\$3,365,491</u>
Status of Budgetary Resources (Note 13)	
Obligations incurred	\$2,424,675
Unobligated balance available	273,277
Unobligated balance not available	<u>667,539</u>
Total Status of Budgetary Resources	<u>\$3,365,491</u>
Outlays	
Obligations	\$2,424,675
Less: Spending authority from offsetting collections and adjustments	(407,236)
Obligated balance – beginning of period	392,124
Less: Obligated balance, net – end of period	<u>(480,555)</u>
Total Outlays	<u>\$1,929,008</u>

The accompanying notes are an integral part of these statements.



Department of the Treasury, United States Customs Service
Statement of Financing
For the Year Ended September 30, 1998
(Dollars in Thousands)

	<u>1998</u>
Obligations and Nonbudgetary Resources	
Obligations incurred	\$2,424,675
Less: Spending authority from offsetting collections and adjustments	(407,236)
Financing imputed for cost subsidies	114,734
Transfers-in (out)	<u>6,920</u>
Total Obligations As Adjusted and Nonbudgetary Resources	<u>2,139,093</u>
Resources That Do Not Fund Net Cost of Operations	
Change in amount of goods, services, and benefits ordered but not yet received or provided	(20,975)
Costs capitalized on the Balance Sheet	(136,950)
Financing sources that fund costs of prior periods	<u>(242)</u>
Total Resources That Do Not Fund Net Cost of Operations	<u>(158,167)</u>
Costs That Do Not Require Resources	
Depreciation and amortization	56,097
Inventory used in operations	37,953
Other	<u>2,226</u>
Total Costs That Do Not Require Resources	<u>96,276</u>
Financing Sources Yet To Be Provided (Note 14)	<u>3,542</u>
Net Cost of Operations	<u>\$2,080,744</u>

The accompanying notes are an integral part of these statements.



Department of the Treasury, United States Customs Service
Statement of Custodial Activity
For the Year Ended September 30, 1998
(Dollars in Thousands)

	<u>1998</u>
SOURCES OF CUSTODIAL REVENUE AND COLLECTIONS	
Revenue Received	
Duty	\$ 19,118,137
User fees (Note 15)	1,578,811
Excise taxes	1,273,350
Fines and penalties	57,448
Interest	27,021
Other	17,190
Total Revenue Received	<u>22,071,957</u>
Less: Refunds and other payments (Note 16)	<u>(1,387,008)</u>
Net Revenue Received	<u>20,684,949</u>
Accrual Adjustment	<u>(195,521)</u>
TOTAL CUSTODIAL REVENUE	<u>20,489,428</u>
 DISPOSITION OF REVENUE RECEIPTS	
Amounts Transferred	
U.S. Department of the Treasury	20,498,138
U.S. Department of Agriculture	62,847
Retained by U.S. Customs Service	50,707
Other Federal agencies	73
Government of Puerto Rico	70,581
Government of the U.S. Virgin Islands	2,603
Accrual adjustment	(195,521)
TOTAL DISPOSITIONS OF REVENUE RECEIPTS	<u>20,489,428</u>
 NET CUSTODIAL REVENUE ACTIVITY	 <u><u>\$ 0</u></u>

The accompanying notes are an integral part of these statements.



Department of the Treasury, United States Customs Service
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

The U.S. Customs Service (Customs), with headquarters in Washington, D.C., was created in 1789 and is now a part of the U.S. Department of the Treasury (Treasury). Customs is primarily responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. Customs primary responsibilities include: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States, (2) assessing and collecting duties, excise taxes, fees, and penalties due on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the United States on behalf of Federal agencies and/or in conjunction with various state, local, and other Federal agencies and foreign countries.

Operating and other costs incurred from the activities described above are funded principally through congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred and, therefore, recorded as expenses are offset by appropriated funds that are recorded as financing sources or by reimbursable revenue, user fee revenue, or other financing sources. These operational activities are reflected in the entity accounts of Customs.

Customs collects revenues on behalf of the Federal Government. Substantially all of the revenues collected by Customs are remitted to the General Fund, maintained by Treasury, and are typically recorded in 31 accounts. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. Customs transfers the remaining revenue (generally less than two percent of revenues collected) to other Federal agencies, including the U.S. Department of Agriculture (USDA), and the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activity are recorded in a separate account established for this purpose and are funded through a permanent indefinite appropriation (Refunds and Drawback account). These activities reflect the non-entity/custodial responsibilities that Customs, as an agency of the Federal government, has been authorized by law to enforce.

The Federal Account Symbols and Titles of Customs entity and non-entity accounts are presented in the Required Supplementary Information Section of this report.

Basis of Accounting

In 1992, Customs began preparing audited financial statements as required by the Chief Financial Officers Act of 1990. Beginning with the FY 1996 report, the Government Management Reform Act of 1994 (GMRA) requires executive agencies, including Treasury, to produce audited consolidated annual reports and related footnotes for all activities and funds. Additionally, as provided by GMRA, the Director of the Office of Management and Budget (OMB) has designated Customs to submit audited financial statements.

Applicable accounting standards and principles for Federal entities, as well as the form and content to be followed for the preparation of these statements, are published by OMB. Customs financial statements are presented in accordance with the following hierarchy of federal accounting standards as prescribed by OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," as amended:

- Individual standards agreed to by the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States, and published by OMB and the General Accounting Office.
- Interpretations related to the Statements of Federal Financial Accounting Standards issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards."
- Requirements contained in OMB's Form and Content Bulletin in effect for the period covered by the financial statements.
- Accounting principles published by other authoritative standard-setting bodies and other authoritative sources: (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

Entity Component of the Financial Statements

Customs entity financial statements with respect to the balance sheet, the statement of net cost, and the statement of changes in net position are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Customs statement of budgetary resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received, that will require payments during the same or future period. Customs statement of financing reconciles differences between the budgetary and accrual bases of accounting. Intra-entity transactions have been eliminated.

Non-Entity Component of the Financial Statements

Customs non-entity revenue reported through the statement of custodial activities is reported on a modified cash basis, reflecting accruals for tax/trade receivables. Refunds of duties, taxes and fees are also reported on a modified cash basis, which includes accruals for refunds payable.

Basis of Presentation and Limitations on the Financial Statements

Customs financial statements consist of the balance sheet, the statement of net cost, the statement of changes in net position, the statement of budgetary resources, the statement of financing, and the statement of custodial activity; all of which are prescribed by OMB Bulletin 97-01.

Recognition and measurements of budgetary information on Customs Statement of Budgetary Resources is based on budgetary terminology, definitions, and guidance in OMB Circular A-34, "Instruction on Budget Execution."

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Because OMB prescribed new financial statement formats in FY 1998, comparative information is not provided for FY 1997.

Entity

Assets and Liabilities

Entity intra-governmental assets and liabilities represent activity with other Federal agencies. All other entity assets and liabilities represent activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments outside the U.S. Government.

Fund Balance with Treasury

Fund balances with Treasury are the amounts remaining as of fiscal year-end from which Customs is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

Entity Intra-governmental Accounts Receivables

Intra-governmental accounts receivable represent amounts due from Federal agencies. These receivables are expected to be fully collected.

Entity Accounts Receivables

Entity accounts receivable from reimbursable services and user fees represent amounts due for services performed. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity.



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

Advances

Intra-governmental advances consist of: (1) advances expected to be returned without expenditure; and (2) amounts paid to Federal agencies prior to Customs receiving goods and services. All other advances consist of: (1) travel and salary advances to employees; and (2) advances relating to certain investigative activities.

Inventory and Related Property

Inventory consists of aircraft, marine, and communications parts and materials to be consumed in Customs operations. Aircraft parts and materials are stated at the average unit cost, and marine parts and materials are stated using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. Communications parts and materials are stated at acquisition cost.

Disclosures are also made for items seized by Customs and subsequently forfeited.

Property, Plant and Equipment

Prior to FY 1996, Customs capitalized as assets any purchased, transferred or donated property, plant and equipment with a value of \$5,000 or greater, and a useful life of 2 years or greater. Beginning with FY 1996, Customs capitalizes as assets property, plant and equipment with a value of \$50,000 or greater, and a useful life of 2 years or greater. Customs also capitalizes as assets bulk acquisitions of like-kind property, plant and equipment items that are individually valued under the capitalization threshold but are, in the aggregate, significant to Customs financial position or results of operations.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50,000 for improving or rebuilding an asset and that increase an asset's useful life are capitalized. Prior to FY 1996, expenditures greater than \$5,000 for improving or rebuilding an asset and that increased an asset's useful life were capitalized. In-house computer software development costs are expensed.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 2 to 20 years for capitalized equipment, ranging from 2 to 30 years for leasehold improvements, and 30 years for buildings and structures.

Upon legal transfer, donation, or approval for disposal of property, plant or equipment, the related asset, corresponding accumulated depreciation and net position account balances are removed.

Liabilities Covered By/Not Covered by Budgetary or Other Resources

Liabilities covered by budgetary or other resources are those liabilities incurred for which Congress has appropriated or otherwise made funds available during the current or prior fiscal years. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally-appropriated or other amounts. The liquidation of the liabilities not covered by budgetary or other resources are dependent on future congressional appropriations.

The expenses associated with liabilities not covered by budgetary or other resources are reflected in the costs of the Statement of Net Cost.

Accrued Annual, Sick and Other Leave and Compensatory Time

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of liabilities not covered by budgetary resources in the Balance Sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken.

Federal Employee Benefits

Most Customs employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS). Employees contribute 7 percent of base pay, or 7.5 percent for those personnel classified as law enforcement agents, while Customs contributes 8.51 or 9.01 percent, respectively, for a total contribution rate of 15.51 or 16.51 percent as of September 30, 1998. The cost of providing a CSRS benefit is 24.2 percent, or 40.0 percent for law enforcement agents, as provided by the Office of Personnel



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

Management (OPM) as of September 30, 1998, which is more than the amounts contributed by Customs and the employees. Customs is required to report the full cost of providing pension benefits to include the cost financed by OPM. As of September 30, 1998, the additional pension expense totaling \$56.8 million is included as an expense and an imputed financing source in the Statement of Net Cost and the Statement of Changes in Net Position, respectively.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which Customs automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, Customs also contributes the employer's matching share for Social Security. For the FERS basic benefit, the employees contribute 0.8 percent of base pay, or 1.3 percent for those personnel classified as law enforcement agents, while Customs contributes 10.7 or 23.3 percent, respectively, for a total contribution rate of 11.5 or 24.6 percent as of September 30, 1998. This equals the contribution rates established by OPM.

For Customs inspectors and canine officers, the pay basis for determining employee deductions and agency contributions toward CSRS and FERS, as appropriate, includes regular pay and up to a maximum of \$12,500 in certain overtime earnings.

Customs does not report CSRS assets, FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. As of September 30, 1998, contributions of \$139.6 million were made to these plans.

Similar to Federal retirement plans, OPM, rather than Customs, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. Customs is required to report the full cost of providing other retirement benefits (ORB) although Customs currently does not recognize expenses or contribute funds for the cost to provide health benefits and life insurance to its retirees. As of September 30, 1998, the cost factor per employee enrolled in the FEHBP is \$2,529, which is provided by OPM on a per employee basis because the benefits do not depend on future salary levels of individual employees. As of September 30, 1998, the FEHBP ORB amount totaling \$43.2 million, is included as an expense and imputed financing source in the Statement of Net Cost and the Statement of Changes in Net Position, respectively. As of September 30, 1998, the FEGLI cost factor for employees enrolled in the FEGLI program is .02 percent of their basic pay. As of September 30, 1998, the FEGLI ORB amount totaling \$183 thousand is also included as an expense and imputed financing source in the Statement of Net Cost and the Statement of Changes in Net Position, respectively.

As of September 30, 1998, Customs contributions for active employees who participate in FEHBP were \$48.8 million, and Customs contributions for active employees who participate in the FEGLI program were \$2.1 million.

Customs is required to recognize an expense and liability for other postemployment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Customs recognizes an expense and liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before September 30, 1998. As of September 30, 1998, Customs recorded an expense and liability for unemployment compensation totaling \$293 thousand, and for continuation of pay totaling \$65 thousand.

Accrued Workers' Compensation

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (Labor), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants.

Reimbursement to Labor on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to Customs as part of its annual appropriation from Congress in the year in which the reimbursement takes place. As of September 30, 1998, Customs accrued intra-governmental liability to Labor for payments made but not covered by budgetary resources is approximately \$40.9 million. The actuarial liability estimate includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by Labor, Treasury allocates the actuarial liability to its bureaus and department offices based on the payment history for the bureaus and department offices. The net present value of estimated



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

payments are not covered by budgetary resources and will require future funding. Customs estimated actuarial liability as of September 30, 1998, is approximately \$172.8 million.

Unexpended Appropriations

Unexpended appropriations represent the amount of Customs unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded or withdrawn.

Cumulative Results of Operations

Cumulative results of operations primarily represents the excess of user fee revenues over expenses. It also includes resources used to invest in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual leave earned but not taken, accrued workers' compensation, and contingent liabilities.

Revenue, Financing Sources, and Expense Recognition

Customs activities are financed principally through exchange revenue, non-exchange revenue, and appropriations.

Appropriations used are recognized as a financing source when expenses are incurred and assets are purchased.

Exchange revenues from reimbursable services and intra-governmental reimbursable activity are recognized as earned when the good or service is provided and reflect the full cost of the good or service provided. Non-exchange revenue from user fees is recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. Customs may retain the user fee revenues and expend them as authorized by law for Customs inspector overtime and other activities directly related to the services to which the fees relate.

Costs incurred by Customs but funded by another entity and transfers of assets without reimbursement are also recognized as financing sources for the period in which they occurred.

Expenses are recognized when goods or services are received, when inventory is used, or assets depreciated or amortized.

Non-Entity

Assets and Liabilities

Non-entity intra-governmental assets and liabilities represent activity with other Federal agencies. All other non-entity assets and liabilities represent activity outside of the Federal government, such as domestic and foreign persons, organizations, or governments outside the U.S. Government. Non-entity assets consist of funds with Treasury and receivables relating to import/export activity which are to be distributed to Treasury, other Federal agencies and other governments. Corresponding liabilities are recorded as Due to the General Fund and Others and Advances From Others for amounts to be allocated in future periods. A refund payable is recorded for duties, taxes, or fees to be refunded.

Customs receives funding to pay refunds and drawback claims of duties, taxes, or fees. Customs accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. A non-entity intra-governmental liability due to the General Fund is recognized for refunds and drawback funds in excess of accrued liabilities. Customs also discloses contingent liabilities related to future refunds and drawback claims. These liabilities are based on historical experience.

Fund Balance with Treasury

The fund balance with Treasury represents: (1) non-entity monies to be distributed to the General Fund or various Federal agencies; and (2) funds available to pay refunds and drawback claims of duties, taxes, and fees. The monies to be distributed represent the timing differences between when the monies are received and identified to the specific revenue type, and when the distribution of funds occurs.



Department of the Treasury, United States Customs Service Notes to Financial Statements (continued)

Accounts Receivable

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest which have been established as a legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. Customs accounting policy for non-entity receivables is described in more detail in Note 3, Accounts Receivable.

Seized Property and Currency

Seized property and currency result from enforcement activities. These items are not considered assets of Customs; however, Customs has a stewardship responsibility until the disposition of the seized items are determined, i.e., judicially or administratively forfeited or returned to the entity from which it was seized. If forfeiture occurs, the seized property and currency become assets of the Treasury Forfeiture Fund, or in the case of prohibited items, such as narcotics, are destroyed. Analysis of changes in seized and forfeited property and currency are disclosed in Note 4, Inventory and Related Property.

Other Non-Entity Items in Customs Custody

Customs has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or related notes as the amount is not significant, but does represent a fiduciary responsibility of Customs.

Revenue and Expense Recognition

Revenue is recognized when the cash Customs is entitled to collect on behalf of the Federal government is received. Primarily, these revenue collections result from current fiscal year activities. The significant types of revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.
- User fees: amounts designed to defray the cost of services performed by Customs officers or other officials within the port authority, to maintain United States harbors, and to defray the cost of other miscellaneous service programs.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products.
- Fines and penalties: amounts collected for violations of laws and regulations.
- Refunds: payments made to importers/exporters for overpayment or duplicate payments of duties, taxes, or fees, including interest as provided by law. A refund is primarily identified when the import entry is liquidated, a process in which Customs makes final determination of duties, taxes, fees and interest owed on the entry and compares it to the estimated amount previously paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated.

Refunds and associated interest are primarily recorded in and funded by the Refunds and Drawback account. In certain circumstances, however, a refund may be identified prior to liquidation for amounts erroneously remitted. When a refund is identified prior to liquidation, the refund from this remittance is funded from the erroneous collection rather than from the Refunds and Drawback account.

- Drawback: a remittance, in whole or in part, of duties, internal revenue taxes, or fees. Drawback typically occurs where the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Different kinds of drawback claims authorized by regulation (19 CFR 191.2 and 19 CFR 181), include manufacturing, same condition merchandise, and rejected merchandise. The claimant has up to eight years from the date of importation to file for manufacturing drawback, and up to six years from the date of importation to file for same condition or rejected merchandise drawback.



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

A financing source and expense for refunds and for drawback is primarily recognized when payment is made. The financing source, representing Refund and Drawback account amounts used to fund the disbursement, is included as a decrease in the amount transferred to Treasury reported on the Statement of Custodial Activity.

An accrual adjustment is included to modify net cash collections and refunds to determine the amount of recognized revenue. Accruals represent the net increase or decrease in net revenue related assets and liabilities during a reporting period. Net revenue related assets and liabilities include non-entity accounts receivable, net of uncollectible amounts, and amounts payable for refunds.

Funds remaining in the non-entity budget clearing account at year-end represent amounts Customs received as custodial revenue, but could not immediately be applied to a record or bill. For financial statement purposes, Customs reclassifies amounts remaining in the budget clearing account at year-end and received during the reporting period as custodial revenue.

Customs transfers custodial cash collections to other government agencies based on established laws and regulations. Amounts remitted to the Treasury General Fund can be further distributed to other Federal agencies, as required by law, to fund specific programs or other agency entity activities. For example, Treasury will further distribute 30 percent of duties collected to USDA in accordance with 7 U.S.C. 612c. Revenues collected by Customs and provided directly to USDA represent fees, taxes, and penalty amounts assessed under USDA laws and regulations. Revenues provided directly to the Government of Puerto Rico represent duties, taxes, and fees collected by Customs on behalf of the Government of Puerto Rico in accordance with 48 U.S.C. 739 and 740. Customs also collects duties, taxes, and fees on behalf of the Government of the U.S. Virgin Islands in accordance with 48 U.S.C. 1406 h-i. Customs, however, is authorized by various laws and regulations to retain amounts relating to specific costs incurred in the collection of revenue before remitting the excess amounts to Treasury or to the Governments of Puerto Rico or the U.S. Virgin Islands. The amounts retained by Customs are recorded as earned revenue on the Statement of Net Cost.

Customs also has the authority, in accordance with 19 CFR 127, to take into custody, without risk or expense, merchandise termed "general order property," for which: (1) entry is not made within the time permitted; (2) estimated duties are not paid; (3) proper documentation is lacking; (4) invoicing was incorrectly or illegally performed; and (5) a request has been made by the importer or person in charge of the conveyance in which the merchandise was imported. Customs sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If this general order property remains in Customs custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it is considered unclaimed or abandoned and can be sold by Customs at public auction.

When general order property is sold, charges are paid from the sales revenue in the following order: (1) internal revenue taxes, (2) expenses of advertising and sale; (3) expenses of cartage, storage and labor; (4) duties; (5) any other charges due the Federal government; and (6) any sum due to satisfy a lien for freight charges or contributions (19 CFR 127.31). Revenue in excess of identified charges is remitted to the Treasury General Fund. In some cases, Customs incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit Customs to offset these costs of sale before returning excess amounts to Treasury or to offset the remaining charges in the repayment hierarchy.

2. Fund Balance with Treasury

Entity

Fund balance with Treasury as of September 30, 1998, consists of the following (in thousands):

	1998			
	Obligated	Unobligated Available	Unobligated Restricted	Total
Trust Funds	\$ 28,980	\$ 22,326	\$ 35	\$ 51,341
Appropriated Funds	398,200	92,977	27,864	519,041
Special Funds	50,795	159,124	639,640	849,559
Deposit Funds	--	6,388	--	6,388
Cash – Imprest Funds	-	-	-	-
Totals	\$ ==	\$ ==	\$ 667,539	\$ ==



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

Amounts comprising the special fund balances result from Customs authority to assess and collect user fees relating to merchandise and passenger processing (Customs User Fees Account, 101 Stat. 1330-377), Customs authority to assess and collect fees associated with services performed at certain small airports or other facilities (Customs Services at Small Airports, P.L. 98-573, section 236), and Customs authority to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico (Refunds, Transfers and Expenses of Operation of Puerto Rico, 48 U.S.C. 740). These special fund balances are restricted by law in their use to offset specific costs incurred by Customs. In addition, Customs is required to maintain \$30 million in its User Fees Account. Also, a part of the passenger fees in the User Fees Account, totaling approximately \$639.6 million as of September 30, 1998, are restricted by law in their use to offset specific costs incurred by Customs and are available to the extent provided in Appropriation Acts. As of September 30, 1998: (1) Customs User Fees Account contained approximately \$835.1 million; (2) Customs Services at Small Airports account contained approximately \$2 million; and (3) the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$12.5 million.

The entity trust fund balances result from Customs authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Customs relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased.

Non-Entity

Fund balance with Treasury as of September 30, 1998, consists of the following (in thousands):

	<u>1998</u>
General fund receipt accounts	\$ 36,293
Trust fund receipt accounts	700
Special fund receipt accounts	5,102
Deposit fund receipt accounts	38,965
Suspense account	19,962
General fund – Refunds and Drawback	<u>963,558</u>
Total	\$ <u>1,064,580</u>

The general fund Refunds and Drawback account balance represents amounts with Treasury from Customs permanent, indefinite appropriation to pay refunds and drawback claims of duties, taxes, or fees. The account is presented as a non-entity balance because the refund and drawback payments are associated with Customs custodial activity of collecting revenue on behalf of the Federal government.

The non-entity Suspense account contains funds held by Customs that may not result in custodial revenue. Items in the suspense account typically include: (1) amounts collected from bankrupt entities (these amounts will be re-distributed according to final determination of bankruptcy procedures); (2) offers made by an importer/broker who violated a law or regulation and is attempting to mitigate the penalty or fine amount (the offer will become revenue if accepted or will be refunded to the importer/broker if rejected); and (3) cash held by Customs from an importer/broker in lieu of the importer/broker filing a surety bond (these amounts are returned to the importer/broker when the importing activity ceases or when a surety bond is placed on file with Customs, net of any amounts owed relating to duty, taxes, or fees).

Balances in the non-entity Budget Clearing Account at year-end that were classified as custodial revenue totaled approximately \$10.4 million.

3. Accounts Receivable, Net

Entity Intra-governmental Accounts Receivable

Accounts receivable due from other Federal agencies, as of September 30, 1998, total \$32 million, and are considered fully collectible.



Department of the Treasury, United States Customs Service Notes to Financial Statements (continued)

Entity Accounts Receivables, Net

Receivables from reimbursable services are recognized for work, or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. Reimbursable service receivables total \$5.7 million and are considered fully collectible.

User fees are collected for inspectional processing of air and sea passengers and loaded railroad cars. Receivables accrue for airline and vessel fees on a quarterly basis and accrue for railroad fees on a monthly basis. Payment is due thirty days subsequent to the end of the quarter for airline and vessel fees, or sixty days subsequent to the end of the month for railroad fees. User fee receivables total \$66.5 million and are net of uncollectible amounts totaling \$3.3 million.

Non-Entity Receivables, Net

Receivables as of September 30, 1998, are as follows (in thousands):

Receivable Category	1998			
	Intra- governmental		Amounts Uncollectible	Total Net Receivables
Duties	\$ 31	\$ 757,495	\$ (18,497)	\$ 739,029
Excise Taxes	--	26,657	(90)	26,567
User fees	--	57,755	(1,926)	55,829
Fines/penalties	--	294,250	(249,177)	45,073
Interest	--	36,510	(32,281)	4,229
Refunds and drawback	-	5,268	(4,794)	474
Gross receivables	31	1,177,935	<u>(306,765)</u>	<u>871,201</u>
Less uncollectible amounts	-	-	-	-
	-	<u>(306,765)</u>		
Net receivables	\$ <u>31</u>	\$ <u>871,170</u>		

Customs assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file Customs entry documents. Within 10 working days after Customs releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. A receivable of \$795 million was recorded for 412,272 entries for merchandise released into commerce on or before September 30, 1998, for which payment was not received as of September 30, 1998. There were an additional 2,586 entries for merchandise released into commerce on or before September 30, 1998, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is Customs policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable. Of the \$871 million non-entity net receivable amount, \$795 million, or 91 percent, was collected as of November 4, 1998.

In addition to the above reporting and related payments, import specialists review selected entry summaries to determine whether importer estimates of duties, taxes, and fees were accurate or whether additional (supplemental) amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by Customs Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date to file for a review of the application by the Commissioner of Customs. Consequently, supplemental accounts receivable balances are only recorded on outstanding claims when the protested period has elapsed or when a protest decision has been rendered in Customs favor.

Receivable amounts recorded above also do not include unliquidated entries related to vessel/aircraft foreign repair or equipment purchases (vessel repair entries). Customs regulations state the liability for the declaration, entry and payment of duties accrues at the time of the first arrival of the vessel in a port of the United States; however, payment of duty is not due until liquidation of the entry. Liquidation results in billing of the amounts due, and these amounts can be protested. Thus, receivable amounts are recorded when the protest period has elapsed or when a protest decision has been rendered in Customs favor. As of September 30,



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

1998, there were 693 unliquidated vessel repair entries with an estimated receivable balance of approximately \$14.5 million. The duties were estimated based on actual subsequent liquidated amounts or an average liquidated amount based on historical data for the past four years.

A fine or penalty is established when a violation of import/export law is discovered. Customs assesses a liquidated damage or penalty for these cases to the maximum extent of the law. The importer or surety has the option after receipt of the notice of assessment to petition that assessment. The importer or surety has 60 days to file such petition for relief or make payment of the assessed amount. If a petition is received and Customs finds there are extenuating circumstances, such as an incorrect assessment which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. As of September 30, 1998, Customs had 5,569 receivables related to fines and penalty cases. Customs was also tracking another 26,903 cases, for which a receivable was not established because: (1) the petition period had not expired; or (2) Customs had not reached agreement (relief granted or denied or court settlement) with the importer or surety as to the amount of damages (fines) or penalties owed. For the 26,903 cases still in petition phase as of September 30, 1998, Customs identified approximately \$37 million as "actual loss of duties." Normally, actual loss of duties results from a misclassification or undervaluation of merchandise imported into the United States, and is discovered as part of an audit of the importer by Customs Regulatory Audit Division. As a result of the audit, a penalty is assessed for violation of Customs laws and regulations. The penalty is usually not mitigated (relief granted) until the outstanding loss of duties is paid. An analysis of change in receivables and aging schedules for the entity and non-entity receivables are available in the Other Accompanying Information section of this report.

4. Inventory and Related Property

Operating Parts and Materials

Operating parts and materials consist of parts and materials held for future consumption to repair and maintain Customs aircraft, vessels, and communication equipment used in enforcement activities. Operating parts and materials as of September 30, 1998, consists of the following (in thousands):

<u>Category</u>	<u>1998</u>
Aircraft	\$41,571
Marine	4,104
Communication	5,271
Total	<u>\$50,946</u>

Parts and materials acquired without reimbursement and consumed during FY 1998 totaled \$19.9 million. Included in the September 30, 1998, balances are parts and materials transferred to Customs without reimbursement totaling \$13.2 million. When ultimately consumed in Customs operations an operating expense is recorded.

Seized Property and Currency

Seized property results principally from Customs criminal investigations and passenger/cargo processing and are not considered assets of Customs. These items include contraband and counterfeit/prohibited items such as drugs and weapons that have no recorded value. Under the requirements of Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, forfeited and seized property held by Treasury bureaus, including Customs, are disclosed on a consolidated basis in the financial statements of the Treasury Forfeiture Fund. Customs has a stewardship responsibility for these assets upon seizure. Substantially all seized property, except drugs and weapons, is managed and maintained under a contract with an unrelated entity, and is disclosed at a value estimated by Customs personnel or, in some cases, an independent appraiser. Depending upon the need for evidence, seized currency is either deposited to a Treasury suspense account or stored in a vault at a financial institution or Customs facility.



4. **Seized Property and Currency (continued)**

Analysis of Change in Seized Property and Currency

Except for the line item illegal drugs and prohibited items, the following information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported in the financial statements of the Treasury Forfeiture Fund. An analysis of change in seized property and currency during FY 1998 is as follows (dollars in thousands):

	Balance October 1		Seizures		Remissions (b)		Forfeitures		Adjustments (c)		Value Changes		Balance September 30	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency and monetary instruments	\$ 148,497	--	\$ 365,579	--	\$ (47,882)	--	\$ (125,765)	--	\$ (22,568)	--	\$ --	--	\$ 317,861	--
Marketable securities	2,345	--	2,231	--	(1)	--	(206)	--	(2,009)	--	--	--	2,360	--
Real property	6,255	44	6,653	23	(11,816)	(19)	(7,008)	(33)	13,539	38	(249)	--	7,374	53
General property	139,765	9,537	180,115	20,829	(111,747)	(10,627)	(21,848)	(9,998)	(6,463)	(1,138)	(50,470)	--	129,352	8,603
Vessels	3,583	131	10,681	163	(7,614)	(61)	(1,312)	(107)	(578)	(16)	(213)	--	4,547	110
Aircraft	2,019	18	28,356	35	(26,819)	(27)	(219)	(5)	(1,053)	(2)	(27)	--	2,257	19
Vehicles	10,267	2,544	52,680	10,725	(36,339)	(4,125)	(11,880)	(6,175)	(776)	(207)	(634)	--	13,318	2,762
Illegal drugs and prohibited items (a)	--	<u>13,581</u>	--	<u>55,751</u>	--	<u>(1,075)</u>	--	<u>(54,593)</u>	--	<u>(2,850)</u>	--	--	--	<u>10,814</u>
Totals	\$ <u>312,731</u>	<u>25,855</u>	\$ <u>646,295</u>	<u>87,526</u>	\$ <u>(242,218)</u>	<u>(15,934)</u>	\$ <u>(168,238)</u>	<u>(70,911)</u>	\$ <u>(19,908)</u>	<u>(4,175)</u>	\$ <u>(51,593)</u>	--	\$ <u>477,069</u>	<u>22,361</u>

- (a) Prohibited items are those with no legal market in the United States. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited, prohibited property are retained by Customs until final disposition.
- (b) Included in remissions were seized items classified as prohibited but subsequently returned to the owner once a legal right to possess the item was established.
- (c) Adjustments include reclassification of property categories and minor adjustments to beginning balance. Additionally, adjustments include property turned over to state and local or other Federal law enforcement agencies for prosecution or destruction prior to forfeiture.



4. Seized Property and Currency (continued)

Analysis of Change in Forfeited Property

Except for the line illegal drugs and prohibited items, the following information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported on the financial statements of the Treasury Forfeiture Fund. An analysis of change in forfeited property during FY 1998 is as follows (dollars in thousands):

	Balance October 1		Forfeitures		Deposits/Sales (b)		Disposals/Transfer		Destroyed		Adjustments (c)		Value Change		Fair Value Adjustment		Balance September 30	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency and monetary instruments	\$ 6,705	--	\$ 125,765	--	\$ (126,549)	--	\$ --	--	\$ --	--	\$ (845)	--	\$ --	--	\$ --	--	\$ 5,076	--
Marketable securities	808	--	206	--	(732)	--	--	--	--	--	--	--	(277)	--	--	--	5	--
Real property	8,977	70	7,008	33	(12,679)	(67)	--	--	--	--	1,423	13	(230)	--	(180)	--	4,319	49
General property	6,758	2,065	21,848	9,998	(30,531)	(1,981)	(1,274)	(633)	(730)	(6,823)	(3,096)	258	(2,891)	--	13,172	--	3,256	2,884
Vessels	797	53	1,312	107	(1,203)	(60)	(837)	(24)	(26)	(44)	415	7	(214)	--	290	--	534	39
Aircraft	138	4	219	5	(344)	(7)	(40)	(2)	--	--	37	--	--	--	(10)	--	--	--
Vehicles	3,366	924	11,880	6,175	(9,369)	(5,596)	(2,004)	(135)	(11)	(14)	(41)	32	(80)	--	(254)	--	3,487	1,386
Illegal drugs and prohibited items (a)	--	11,114	--	54,593	--	(60)	--	(3,484)	--	(49,747)	--	3,033	--	--	--	--	--	15,449
Totals	\$ 27,549	14,230	\$ 168,238	70,911	\$ (181,407)	(7,771	\$ (4,155)	(4,278	\$ (767)	(56,628)	\$ (2,107)	3,343	\$ (3,692)	--	\$ 13,018	--	\$ 16,677	19,807

- (a) The October 1 and September 30 balances reflect net realizable values. The FY 1998 forfeiture, deposits/sales, disposals/transfers, destroyed, adjustments and value change balances reflect estimated values.
- (b) Included in sales are prohibited items, which were legally sold for export.
- (c) Adjustments include reclassification of property categories and adjustments to beginning balances.



Department of the Treasury, United States Customs Service
Notes to Financial Statements (continued)

5. Property, Plant and Equipment

Property, plant and equipment as of September 30, 1998, consists of the following (in thousands):

Categories	Useful Life (in years)	1998		
		Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Aircraft	12 to 20	\$ 397,549	\$ (176,579)	\$ 220,970
ADP Mainframe	5	100,375	(80,339)	20,036
ADP Non-mainframe	5	19,325	(14,168)	5,157
ADP Software	5	7,727	(1,926)	5,801
Vehicles	6	73,770	(55,608)	18,162
Vessels	5 to 10	31,992	(23,822)	8,170
Land	N/A	4,781	--	4,781
Structures, Facilities (a)	30	54,049	(14,436)	39,613
Leasehold Improvements (b)	2 to 30	42,931	(12,302)	30,629
Radio Communications	5	48,263	(43,851)	4,412
X-Ray/Lab Equipment	7	27,615	(17,357)	10,258
Assets under Capital Lease	5	43,595	(36,757)	6,838
Office Equipment and Other	5	<u>65,130</u>	<u>(52,741)</u>	<u>12,389</u>
Totals		\$ <u>917,102</u>	\$ <u>(529,886)</u>	\$ <u>387,216</u>

- Includes four fully depreciated multi-use Heritage Assets located in Puerto Rico with an acquisition value of \$534 thousand.
- Included in the leasehold improvements balance is the right to use a building located at a U.S. Navy installation. Although the structure was financed with Customs funds at a cost of \$5.7 million, a land-use agreement states that ownership of the structure resides with the U.S. Navy.

(Unaudited) Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and is delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its useful life. Deferred maintenance on plant, property and equipment is comprised of (in thousands):

	1998
Building and Structures	\$ 970
Vehicles	<u>77</u>
Total	<u>\$1,047</u>

6. Refunds Payable

Refunds payable consist of amounts owed for refunds and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 1998, accrued liability consists of the following (in thousands):

	1998
Refunds	\$ 262,628
Drawback claims	<u>34,470</u>
Total	\$ <u>297,098</u>

A \$130.7 million liability relating to the renewal of the Generalized System of Preference (GSP) legislation is included in the refunds payable. This Act requires refunds of amounts collected by Customs for specific trade activity occurring after June 30, 1998. The GSP disbursements will be made during FY 1999.

7. Commitments and Contingencies



Department of the Treasury, United States Customs Service Notes to Financial Statements (continued)

Customs is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) Customs appropriation for refunds and drawback; (2) various claims and judgement funds maintained by Treasury; or (3) Customs salary and expense appropriation. It is the opinion of Customs management and legal counsel, that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.

Entity

Customs was involved in various actions incidental to its operations. As of September 30, 1998, Customs probable liability was \$3.4 million of which \$0.7 million would be funded by Customs and \$2.7 million from various claims and judgement funds maintained by Treasury. Customs is required to record an expense and liability for all of its probable and estimable losses regardless of the paying entity. Customs Counsel determined that it is reasonably possible that Customs will be liable for an additional \$37.1 million, of which \$7.1 million would be funded by Customs and \$30 million from various claims and judgement funds maintained by Treasury.

The National Treasury Employees Union (NTEU) filed grievances concerning the use of other than full-time employees and denying full-time inspectors the opportunity to work overtime for the years 1989 to 1994. An agreement was reached with the NTEU in June 1998 concerning the grievances related to Customs use of other than full-time inspectors. Customs recorded a liability of approximately \$2.0 million to be paid from the Salaries and Expense appropriation for the settlement of the grievances. Interest will be included in the payments, but an estimate has not been identified at this time.

Customs is generally liable to the Department of Defense (DoD) for damage or loss to aircraft on loan to Customs from DoD. Customs had 30 loaned aircraft with an acquisition value of \$111 million as of September 30, 1998. Customs recorded a \$7 million intra-governmental liability to DoD for damaged and lost aircraft to be funded and paid in future periods.

In accordance with Public Law 101-510, Customs is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. At September 30, 1998, Customs canceled approximately (a) \$24.2 million of its FY 1993 Salaries and Expense appropriation, of which \$10.2 million was obligated; (b) \$10.1 million of its FY 1993 Operations and Maintenance, Air/Marine Interdiction appropriation, of which \$2 million was obligated; and (c) \$1.4 million of its FY 1993 Operations and Maintenance, P-3 Drug Interdiction Program appropriation, of which \$0.9 million was obligated. For the year ended September 30, 1998, Customs paid \$398 thousand for obligations associated with appropriations that were canceled in prior fiscal years. Based upon historical activity, Customs estimates obligations related to canceled appropriations that will be paid from future appropriations will not exceed \$1 million in any fiscal year.

Public Law 103-182, enacted December 8, 1993, authorized Customs to award a \$10 million grant to an institution or a consortium of such institutions in the State of Texas to assist in planning, establishing, and operating a Center for the Study of Western Hemispheric Trade. In January 1995, Customs awarded the grant to Texas A&M University Research Foundation. The grant was fully obligated in Customs FY 1995 Salaries and Expense appropriation and was available for expenditure through September 30, 1998. Public Law 104-208, enacted September 30, 1996, provided that of the funds appropriated, \$2.5 million may be made available for the Western Hemisphere Trade Center. Customs increased the grant to Texas A&M University Research Foundation in September 1997 to a total of \$12.5 million, of which the \$2.5 million was fully obligated in Customs no-year Salaries and Expense appropriation. The total \$12.5 million is available for expenditure through December 31, 1998, as modified in March 1998. For the year ending September 30, 1998, \$3.9 million was disbursed. The total amount disbursed, as of September 30, 1998, was \$11.2 million. A liability of \$35 thousand was recorded for payments by the Texas A&M University Research Foundation that were not reimbursed by Customs as of September 30, 1998.

Pursuant to Public Law 103-182, and as a result of the conference report clarification associated with Public Law 104-52, enacted November 19, 1995, Customs was authorized funding for review of trade issues to be equally divided between the Center for the Study of Western Hemispheric Trade in Texas and the Northern Plains and Rockies Center for the Study of Western Hemispheric Trade in Montana at no more than half the level provided in 1995. In August 1996, Customs awarded a \$2.5 million grant to Montana State University to further research and education programs at the Northern Plains and Rockies Center for the Study of Western Hemisphere Trade. The grant was fully obligated in Customs no-year Salaries and Expense appropriation and is available for expenditure through September 30, 1999. For the year ending September 30, 1998, \$0.7 million was disbursed. The total amount disbursed, as of September 30, 1998, was \$1.6 million. A liability of \$13 thousand



Department of the Treasury, United States Customs Service

Notes to Financial Statements (continued)

was recorded for payments by the Northern Plains and Rockies Center for the Study of Western Hemisphere Trade at Montana State University that were not reimbursed by Customs as of September 30, 1998.

Pursuant to Public Law 105-61, enacted October 10, 1997, Customs was authorized funding to award a \$1.25 million grant to the Global Trade and Research Program at the Montana World Trade Center. In March 1998, Customs awarded the grant to the University of Montana to further research and education programs for the Global Trade and Research Program at the Montana World Trade Center. The grant was fully obligated in Customs no-year Salaries and Expense appropriation and is available for expenditure through December 31, 1999. For the year ending September 30, 1998, \$0.3 million was disbursed. A liability of \$67 thousand was recorded for payments by the Montana World Trade Center at the University of Montana that were not reimbursed by Customs as of September 30, 1998.

As a result of Senate Report 105-49 associated with Public Law 105-61, enacted October 10, 1997, Customs was authorized to provide no less than \$200,000 to the National Center for Missing and Exploited Children (NCMEC) for the training of retired law enforcement officers to assist in the investigation of unsolved missing children cases nationwide. In June 1998, Customs modified a grant to NCMEC from the U.S. Secret Service to increase it by \$200,000. The addition to the grant was fully obligated in Customs FY 1998 Salaries and Expense appropriation and is available for expenditure through October 31, 2000. For the year ending September 30, 1998, no disbursements were made from Customs funds and no liability was recorded.

Non-Entity

There are cases filed against Customs relating to trade litigation. As of September 30, 1998, Customs recorded a probable liability associated with these cases of \$58.8 million. Customs counsel determined that it was reasonably possible for Customs to be liable for an additional \$170.2 million, as a result of trade litigation.

Customs collects a Harbor Maintenance Fee on behalf of the Federal Government, which is used for the maintenance of U.S. harbors. The collections are recorded in the Harbor Maintenance Trust Fund. In October 1995, the Court of International Trade decided the assessment of a Harbor Maintenance Fee on exports violates the United States Constitution. The Court of International Trade decision was upheld by the Court of Appeals for the Federal Circuit during FY 1997, and by the United States Supreme Court during FY 1998. Collections received during the judgement period total \$1.1 billion as of September 30, 1998. Additionally, the Court of International Trade has accepted test cases relating to the collection of Harbor Maintenance Fees on domestic shipments and foreign trade zone admissions. The Court of International Trade has decided the assessment of a Harbor Maintenance Fee on passenger activity is unconstitutional. That decision is under appeal at the Court of Appeals for the Federal Circuit. In the opinion of Customs Management and Counsel, any litigation involving the constitutionality of Harbor Maintenance Fees, and resulting in a refund of amounts collected, does not represent a liability to Customs.

Customs estimated future drawback claims and refunds relating to custodial revenue collections received during FY 1998 and in prior years, at \$1,022 million and \$853 million, respectively.

There are various other trade issues resolved by other Federal Agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other agencies, Customs does not have sufficient information to estimate a contingent liability amount.

8. Leases

Operating Leases

Customs leases various offices, warehouses, and equipment. The expense under these operating leases totaled \$138 million for the year ended September 30, 1998.

Much of the office space occupied by Customs is either owned by the Federal government or is leased by the General Services Administration (GSA) from commercial sources. In either case, the space is assigned to Customs by GSA, based upon current needs. Customs is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique space only for Customs operations. However, it is expected that Customs will continue to occupy and lease office space from GSA in future years, and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease amounts paid to GSA during FY 1998 were \$136 million.



Department of the Treasury, United States Customs Service
Notes to Financial Statements (continued)

As of September 30, 1998, future minimum lease commitments under non-cancelable operating leases for equipment are as follows (in thousands):

<u>Fiscal Year</u>	<u>1998</u>
1998	\$ --
1999	383
2000	170
2001	47
2002	--
2003	--
Total future minimum lease	\$ <u>600</u>

Capital Leases

Customs has a number of capital lease agreements primarily involving mainframe computer equipment and other office equipment. All assets acquired under the capital lease agreements have been capitalized, and the related liabilities are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 1998, the aggregate capitalized cost of the equipment still subject to lease is \$3.3 million. These capitalized items are included in the total assets acquired under capital lease in the amount of \$44 million. Certain leases are cancelable upon certain funding conditions.

Future minimum lease payments under the capitalized leases and the present value of the minimum lease obligation as of September 30, 1998, are as follows (in thousands):

<u>Fiscal Year</u>	<u>1998</u>
1998	\$ --
1999	585
2000	258
2001	92
2002	--
2003	--
Total future minimum lease	935
Less: Imputed interest	<u>(633)</u>
Total net present value of capital lease	\$ <u>302</u>

Substantially all of the net present value of capital lease obligations is expected to be funded from future sources and is presented, as a component of entity liabilities not covered by budgetary or other resources on the Balance Sheet.

9. Other Liabilities Not Covered by Budgetary or Other Resources

Other liabilities not covered by budgetary or other resources as of September 30, 1998, consists of the following (in thousands):

	<u>1998</u>
Continuation of pay	\$ 65
Environmental	<u>38</u>
Total	<u>\$103</u>

The environmental liability represents the cost to remove asbestos and lead based paint at the Canine Enforcement Training Center.

10. Net Position

Net Position as of September 30, 1998, consists of the following (in thousands):



**Department of the Treasury, United States Customs Service
Notes to Financial Statements (continued)**

	<u>Special Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Totals</u>
Unexpended Appropriations				
Unobligated – Available	\$ --	\$ 21,176	\$ 92,977	\$ 114,153
Unobligated – Unavailable	--	35	27,864	27,899
Obligations/Undelivered Orders	<u>--</u>	<u>24,514</u>	<u>261,745</u>	<u>286,259</u>
Total Unexpended Appropriations	--	45,725	382,586	428,311
Cumulative Results of Operations	<u>897,503</u>	<u>8,971</u>	<u>110,467</u>	<u>1,016,941</u>
Total Net Position	\$ <u><u>897,503</u></u>	\$ <u><u>54,696</u></u>	\$ <u><u>493,053</u></u>	\$ <u><u>1,445,252</u></u>

11. Statement of Net Cost

The programs displayed are equivalent to the missions listed in the U.S. Customs Service Fiscal Year 1997-2002 Strategic Plan.

Passenger Processing

To ensure compliance by targeting, identifying, and examining high-risk travelers, and to allow the expeditious movement of low-risk travelers. The goal of Passenger Processing is to achieve at least a 99 percent rate of compliance with Customs laws and regulations for passengers and crew of commercial and non-commercial conveyances entering or leaving the United States.

Trade Compliance

To maximize compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo. Customs key goals are to: (a) increase compliance with U.S. trade laws to at least 90 percent overall and to at least 98 percent in primary focus industries, (b) continue to collect at least 99 percent of the revenue, (c) increase customer satisfaction, (d) decrease per unit cost, and (e) improve the accuracy of key statistics.

Outbound

To facilitate international trade, while achieving the highest degree of compliance with United States export requirements in order to protect the U.S. national security, economic interests, and health and safety of the American people. The Outbound Process is responsible for the series of Customs operations related to the movement of merchandise and conveyances outbound from the United States.

Enforcement

To prevent the smuggling of narcotics and other contraband into the United States by creating an effective interdiction, intelligence, and investigation capability that disrupts and dismantles smuggling operations; and, to identify, disrupt, and dismantle the systems and criminal organizations that launder the proceeds generated by smuggling, trade fraud, and export violations.

Gross costs and earned revenue by budget functional classification for the year ended September 30, 1998, consists of the following (in thousands):

<u>Functional Classification</u>	<u>Gross Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Administration of Justice	\$2,250,751	\$(168,651)	\$2,082,100
General Government	<u>37,699</u>	<u>(39,055)</u>	<u>(1,356)</u>
Totals	<u>\$2,288,450</u>	<u>\$(207,706)</u>	<u>\$2,080,744</u>

Customs and Treasury have a \$27.5 million interagency agreement for the Interagency Crime and Drug Enforcement (ICDE) appropriation to reimburse Customs for the expenses necessary for the detection and investigation of individuals involved in organized crime drug trafficking. Customs expenses as of September 30, 1998, to support this activity totaled approximately \$31.5 million, and were funded from the ICDE and Customs salaries and expense appropriation.



Department of the Treasury, United States Customs Service Notes to Financial Statements (continued)

Expenses by object class code classification as of September 30, 1998, consist of the following (in thousands):

<u>Expenses</u>	<u>1998</u>
Personnel compensation and benefits	\$1,532,903
Travel and transportation	50,377
Rent, communication, and utilities	186,076
Printing and reproduction	3,783
Purchases of evidence and information	15,458
Contractual services	274,621
Supplies and materials	57,715
Equipment not capitalized	98,514
Depreciation expense	56,097
Other expenses	12,906
Total	<u>\$2,288,450</u>

12. Statement of Net Position - Other Adjustments

Customs adjusted the cumulative results of operations account balance during FY 1998 for corrections relating to prior year activity associated with appropriations used for capital investment, parts and materials inventories, and future funding requirements. The net effect of the adjustments to the cumulative results of operations account balance totaled \$18 million.

13. Statement of Budgetary Resources

As of September 30, 1998, budgetary resources obligated for undelivered orders total \$412.9 million. Customs did not have any borrowing or contract authority, and did not have any repayment requirements, financing sources for repayments, or any other terms of borrowing authority used.

Adjustments to budgetary resources available at the beginning of FY 1998 consist of the following (in thousands):

	<u>Amount</u>
Recoveries of prior year obligations	\$178,108
Cancellation of expired and no-year accounts	(35,726)
Enacted rescissions of prior year balances	<u>(10,470)</u>
Total	<u>\$131,912</u>

14. Statement of Financing

The Financing Sources Yet to be Provided presented on the Statement of Financing represents the change between the beginning and ending FY 1998 Liabilities Not Covered by Budgetary and Other Resources presented on the Balance Sheet.

15. User Fees

User fee collections are expected to continue to decrease in coming years because of decreases in collections of the Harbor Maintenance Fee. The Court of International Trade has decided the assessment of a Harbor Maintenance Fee on exports violates the United States Constitution. The Court of International Trade decision was upheld by the Court of Appeals for the Federal Circuit during FY 1997, and by the United States Supreme Court during FY 1998. Additionally, the Court of International Trade has accepted test cases relating to the collection of Harbor Maintenance Fees on domestic shipments and foreign trade zone admissions. The Court of International Trade has decided the assessment of a Harbor Maintenance Fee on passenger activity is unconstitutional. That decision is under appeal at the Court of Appeals for the Federal Circuit. Harbor Maintenance Fee collections totaled \$645 million for FY 1998.

16. Refunds and Other Payments

Disbursements from the Refunds and Drawback account during the fiscal year ended September 30, 1998, consist of the following (in thousands):



Department of the Treasury, United States Customs Service
Notes to Financial Statements (continued)

	1998
Refunds	\$ 837,473
Drawback	<u>549,535</u>
Total	\$ <u>1,387,008</u>

The disbursements include interest payments of \$193.8 million. In certain instances, a refund may be identified prior to liquidation for amounts erroneously remitted. These refunds are funded from the erroneous collections rather than the Refunds and Drawback account. During FY 1998, the refund of erroneous remittances totaled \$23.4 million.

The disbursement totals for refunds also include antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce (Commerce). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. commerce at less than its fair value and (1) a U.S. industry is materially injured or threatened with material injury, or (2) the establishment of an industry in the U.S. is materially retarded because of the importation of that merchandise. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce and (1) a U.S. industry is materially injured or threatened with material injury, or (2) the establishment of an industry in the U.S. is materially retarded because of the importation of that merchandise. These duties are refunded when Commerce issues a decision in favor of the foreign industry.

The total amounts of antidumping and countervailing duties vary from year to year depending on decisions from Commerce. Antidumping and countervailing duty refunds and associated interest refunded during FY 1998 were as follows (in thousands):

	1998
Antidumping and countervailing duty refunds	\$ 371,290
Interest	<u>146,752</u>
Total antidumping and countervailing duty refunds	\$ <u>518,042</u>

Refunds disbursed during FY 1998 relate primarily to duty and interest. Disbursements by entry year consist of the following (in thousands):

<u>Entry Year</u>	<u>Amount</u>
1998	\$471,393
1997	185,364
1996	237,235
Prior Years	<u>493,016</u>
Total	<u>\$1,387,008</u>